

REPORT BY THE
AUDITOR GENERAL
OF CALIFORNIA

**THE DEPARTMENT OF GENERAL SERVICES'
OFFICE OF PROCUREMENT NEEDS TO IMPROVE ITS
PURCHASING AND MATERIALS MANAGEMENT PRACTICES**

**The Department of General Services'
Office of Procurement Needs To Improve Its
Purchasing and Materials Management Practices**

P-135, June 1992

**Office of the Auditor General
California**



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P-135

Honorable Robert J. Campbell, Chairman
Members, Joint Legislative Audit Committee
State Capitol, Room 2163
Sacramento, California 95814

Dear Mr. Chairman and Members:

The Office of the Auditor General presents its report concerning the Department of General Services' procurement and material management practices.

Respectfully submitted,

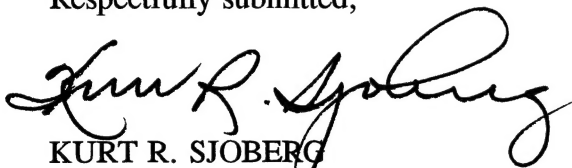

KURT R. SJOBERG
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Summary

Results in Brief The Department of General Services' Office of Procurement (office) needs to improve its provision of services to state and local agencies. During our review, we noted the following conditions:

- The office took an average of 61.9 days, 31.9 days longer than the required 30 days, from the time it received a request for purchases exceeding \$10,000 to the time it issued a solicitation for bid;
- Fifty-four percent of the 217 purchase orders we reviewed did not comply with the State's requirement for seeking participation from minority-owned and women-owned business enterprises;
- The office did not always meet the requirements of the Target Area Preference Act, which encourages employment in distressed and declining areas;
- The office's Material Services Section (Stores) takes an average of 26 days, 16 days longer than its goal of 10 days, to fill orders for supplies requested by state agencies;
- Stores does not always maintain an adequate inventory of stock to fill all supply orders;
- Stores does not offer state agencies in the Sacramento area a price savings on between 12 percent and 30 percent of the approximately 710 commodities it carries; and
- Stores does not always take steps to minimize operating costs.

Background The Legislature created the Department of General Services (department) in 1963. The department provides centralized services including planning, acquisition, construction, maintenance, and police protection of state buildings and property; purchasing; printing; architectural services; administrative hearings; and accounting services. The department's Office of Procurement is the State's central purchasing and materials management agency. The office processes requisitions of state and local agencies, including developing and circulating bid invitations, awarding bids, and issuing purchase orders. Stores, the office's Materials Services Section, manages the State's central warehousing program for publications, standard state forms, and general office items. Through its Sacramento and Fullerton warehouses, Stores maintains a complete stock of basic stationery, office supply items, paints, janitorial supplies, textiles, maintenance supplies, and other general-use commodities. In general, Stores carries those items that may be purchased in bulk for redistribution to the average state agency at a meaningful savings. During fiscal year 1990-91, sales of such items exceeded \$36,999,000.

The Office Does Not Always Comply With All State Contracting Requirements The office generally complies with state contracting requirements. However, it did not always process agency requests for purchases exceeding \$10,000 within the required 30 days from the time that it received the request to the time it issued a solicitation for bid. Specifically, during fiscal year 1990-91, on average, the office took 61.9 days from the time it received a request to the time it issued an invitation for bid (IFB). Also, 117 (54 percent) of the 217 purchase orders we reviewed did not comply with the State's program for obtaining participation from minority-owned and women-owned business enterprises in state contracts. Finally, two (29 percent) of the seven purchase orders exceeding \$100,000 that we reviewed did not contain a notice in the solicitation for bids that monetary contract preference is available under the Target Area Contract Preference Act. One of the reasons these conditions exist is that the office does not adequately monitor the processing of purchase orders to ensure that the process is prompt and that all statutory requirements are met. As a result, state programs and services can be disrupted, and procurements may not be in the State's best interest.

**The Office
Is Not Meeting
the Objectives
of Its Central
Stores
Operations**

According to the office's mission statement, Stores is required to provide professional procurement and materials management services to state and local agencies in an efficient and effective manner. However, Stores is not meeting its objective. Specifically, Stores requires an average of 26 days, 16 days longer than its goal of 10 days, to fill a supply order from the time it receives the request. In addition, Stores did not completely fill 21 percent of the 50,085 supply orders received because it ran out of stock on at least one of the items ordered. Also, Stores does not offer state agencies a price savings on all of the commodities it carries in its catalog. For example, we estimate that Stores charged state agencies higher prices in the Sacramento area for 82 (12 percent) to 214 (30 percent) of the approximately 710 commodities that it carried. Finally, Stores is not minimizing the cost of its operations. For example, Stores accepts and processes all supply orders without regard to their dollar value. Specifically, 19 percent of all supply orders in fiscal year 1990-91 had a value of less than \$36 even though the cost of processing a supply order is at least \$36. As a result of these deficiencies, state agencies are not able to obtain needed supplies promptly and may be ordering large quantities of supplies, causing excessive inventory levels on a statewide basis. In addition, agencies may be paying too much for the supplies that they do receive.

**Recommen-
dations**

To improve its procurement process, the department should take the following actions:

- Review and improve the procurement process, where possible;
- Monitor the procurement process to ensure promptness; and
- Ensure compliance with all state contract requirements.

To improve its material management services, the department should take the following actions:

- Evaluate the supply order process and implement methods for ensuring that orders are filled promptly;
- Improve Stores' inventory management system;
- Conduct more thorough price surveys of private retailers and consider discontinuing those items that are available at lower prices from private retailers;
- Establish a minimum supply order value; and
- Consider other alternatives for providing state agencies with supplies, such as contracting with a private-sector distributor.

Agency Comments	The Department of General Services reviewed the findings and will take appropriate actions to address the recommendations.
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Introduction

The Legislature created the Department of General Services (department) in 1963. The department provides centralized services including planning, acquisition, construction, maintenance, and police protection of state buildings and property; purchasing; printing; architectural services; administrative hearings; and accounting services. A primary objective of the department is, through supportive services, to help state agencies achieve greater efficiency and economy in conducting state business. In addition, the department develops and enforces policies and procedures as it deems necessary to conserve the rights and interests of the State.

The California Public Contract Code generally assigns the department the duty of reviewing and approving all contracts entered into by state agencies for supplies, equipment, materials, services, consultant services, or construction. The department, through its Office of Procurement (office), is responsible for procuring those materials and services in excess of \$100 for state agencies.

The office is the State's central purchasing and materials management agency. According to the State Administrative Manual, by concentrating all purchasing responsibility in one organization, the State can achieve standardization, eliminating duplication of effort and lowering prices as a result of volume buying. Vendors and the general public may, therefore, look to one professional staff for information and assurance that the State's purchases are being handled properly and economically. Some of the office's objectives are to buy the correct material of the right

quality in the proper quantity at the right time from the proper source; to conserve public funds through reduction in cost and improvement in the quality of materials purchased; to reduce the overhead cost of buying; and to improve the speed of delivery to state agencies by predetermining through appropriate means the sources of supply before an actual need for a particular item becomes known.

The office processes requisitions of state and local agencies including developing and circulating bid invitations, awarding bids, and issuing purchase orders. The office's Materials Services Section (Stores) manages the State's central warehousing program for publications, standard state forms, and general office items. Stores, through its Sacramento and Fullerton warehouses, maintains an inventory of basic stationery, office supply items, paints, janitorial supplies, textiles, maintenance supplies, and other general-use commodities. Also, Stores operates a supply center in downtown Sacramento that stocks an inventory of basic stationery, office supplies, and standard state forms. The department plans to close the supply center on July 1, 1992.

Before September 1991, the State Administrative Manual, Section 3540, stated that Stores should carry those items that may be purchased in bulk for redistribution at a savings approaching 20 percent to the average state department. In September 1991, this section was revised to state that Stores should carry those items that may be purchased in bulk for redistribution to the average state agency at a meaningful savings.

In general, state agencies are to purchase materials, supplies, and equipment through Stores, but any state agency with a delegated authority may make purchases not exceeding \$10,000 for materials, supplies, and equipment from another vendor, even when the merchandise is available from Stores, if the vendor offers the merchandise at a lower price. However, the agencies must notify Stores before making such purchases. According to the department's operating statement, during fiscal year 1990-91, sales of items through Stores exceeded \$36,999,000.

**Scope and
Methodology**

The purpose of this audit was to review the office's purchasing operations and centralized warehousing program, determining the time it takes the office to process purchase orders and whether the office complies with state contracting requirements. To accomplish this, we reviewed selected state contracting laws, departmental regulations, and the policies and procedures the office established to implement state laws. Additionally, we interviewed office staff to determine the methods they employ to implement established policies and procedures. Finally, we reviewed purchase order and supply order files to evaluate the office's compliance with laws, regulations, policies, and procedures.

To determine how quickly the office processes purchase orders and whether it complies with state law, we selected 22 random samples consisting of 563 purchase orders from the approximately 5,200 purchase orders processed by the office for fiscal year 1990-91. Specifically, we selected a sample from each type of purchase order processed by the office, including invitations for bid, requests for quote, price requests, and telephone quotations. We selected the purchase order samples from the Sacramento and the Los Angeles offices. In our calculation of average processing times, we excluded purchase orders that did not contain all required date information.

In our review, we analyzed the office's compliance with requirements established by state law or department policies and procedures. Of the compliance requirements we reviewed, we found that the office generally complied with applicable state contracting laws and department policies and procedures. However, we found several deficiencies, which are discussed in detail in Chapter 1 of the report.

The purpose of our review of the office's centralized purchasing program was to determine whether Stores filled supply orders for state agencies within a reasonable time and at a reasonable cost. To accomplish this, we interviewed department officials and staff; observed operations; reviewed pertinent laws and regulations; reviewed department policies, procedures, and records; and contacted state agencies that order their supplies from Stores. We also contacted private retailers in California that

provide commodities similar to Stores to determine the time these retailers take to fill requests for supplies.

To determine whether Stores fills its supply orders promptly, we selected a random sample of 81 of the supply orders received by Stores in fiscal year 1990-91. Our sample excluded both food and walk-in orders. We identified the milestones in the processing of a supply order, determined the dates that these milestones were completed, and calculated in calendar days the time that Stores took to fill the supply orders in our sample.

To determine whether Stores offers state agencies a price savings for the items it procures, we selected a random sample of 48 of the approximately 710 items listed in Stores' catalog. Our sample excluded discontinued items, items manufactured by the Prison Industry Authority, food, forms, and publications. We compared Stores' prices as of October 1991 with those of retailers in Sacramento in October 1991 and February 1992 and with those of retailers in Santa Ana in December 1991. We did not consider delivery costs when comparing prices.

To determine whether Stores maintains an adequate stock of the supplies that it carries, we obtained and analyzed computer-generated reports from the department's Office of Management Technology and Planning for 11 months during fiscal year 1990-91. We did not audit the accuracy of these reports.

To estimate the cost of filling a supply order, we reviewed Stores' operations and obtained its financial statements. We did not audit these financial statements. We identified Stores' total expenditures in fiscal year 1990-91 for filling supply orders, excluding the cost of goods sold. Using the total number of supply orders processed during this period, we calculated the average cost of processing a supply order.

Finally, we reviewed alternate methods of procuring supply needs by contacting another state and city and other counties that do not maintain central warehousing programs. We also spoke with staff from a private sector distributor of supplies and reviewed its operations to better understand industry policies and practices.

Chapter 1 The Department of General Services’ Office of Procurement Does Not Always Comply With All State Contracting Requirements

Chapter Summary

The Department of General Services’ (department) Office of Procurement (office) generally complies with state contracting requirements. However, the office did not always process agency requests for purchases (purchase estimates) exceeding \$10,000 within the required 30 days from the time the office received the purchase estimate to the time it issued a solicitation for bid. Specifically, on average, the office took 61.9 days from the time it received an agency’s purchase estimate for more than \$10,000 to the time it issued an invitation for bid (IFB). Furthermore, the office did not always require vendors to obtain participation from minority-owned and women-owned business enterprises when it awarded 117 (54 percent) of the 217 purchase orders we reviewed. Finally, the office did not always meet the requirements of the Target Area Contract Preference Act. For example, two (29 percent) of the seven purchase orders exceeding \$100,000 that we reviewed did not contain a notice in the solicitation for bids that monetary contract preference is available under the Target Area Contract Preference Act. These deficiencies may result in state programs and services being disrupted and procurements not being made in the State’s best interest.

Background

According to the Public Contract Code, the department is responsible for the procurement of supplies and equipment in excess of \$100 for every state agency except the Regents of the University of California, some purchases of the Trustees of the California State University, and certain boards and commissions. The department meets these responsibilities through its Office of Procurement. Additionally, the office has the authority to delegate limited purchasing authority to state agencies and is responsible for reviewing the purchasing programs of delegated agencies. The

objectives of the office include buying the correct material at the appropriate time, streamlining the flow of paperwork, and improving the speed of delivering these items to state agencies. Finally, the office should complete the procurement process expeditiously and efficiently while assuring that it complies with all statutory requirements.

For the 1990-91 fiscal year, the office processed approximately 5,200 purchase orders for state departments and agencies. The purchase orders included requests for various supplies, equipment, and materials. The office uses several methods to procure these items, such as IFBs, requests for quote, price requests, and telephone quotations.

We reviewed a random sample of 563 purchase orders to determine whether the office was processing the purchase orders promptly and according to selected state contracting requirements. We found that the office generally complied with these requirements. However, we did find several deficiencies, which we discuss in the following sections of the report.

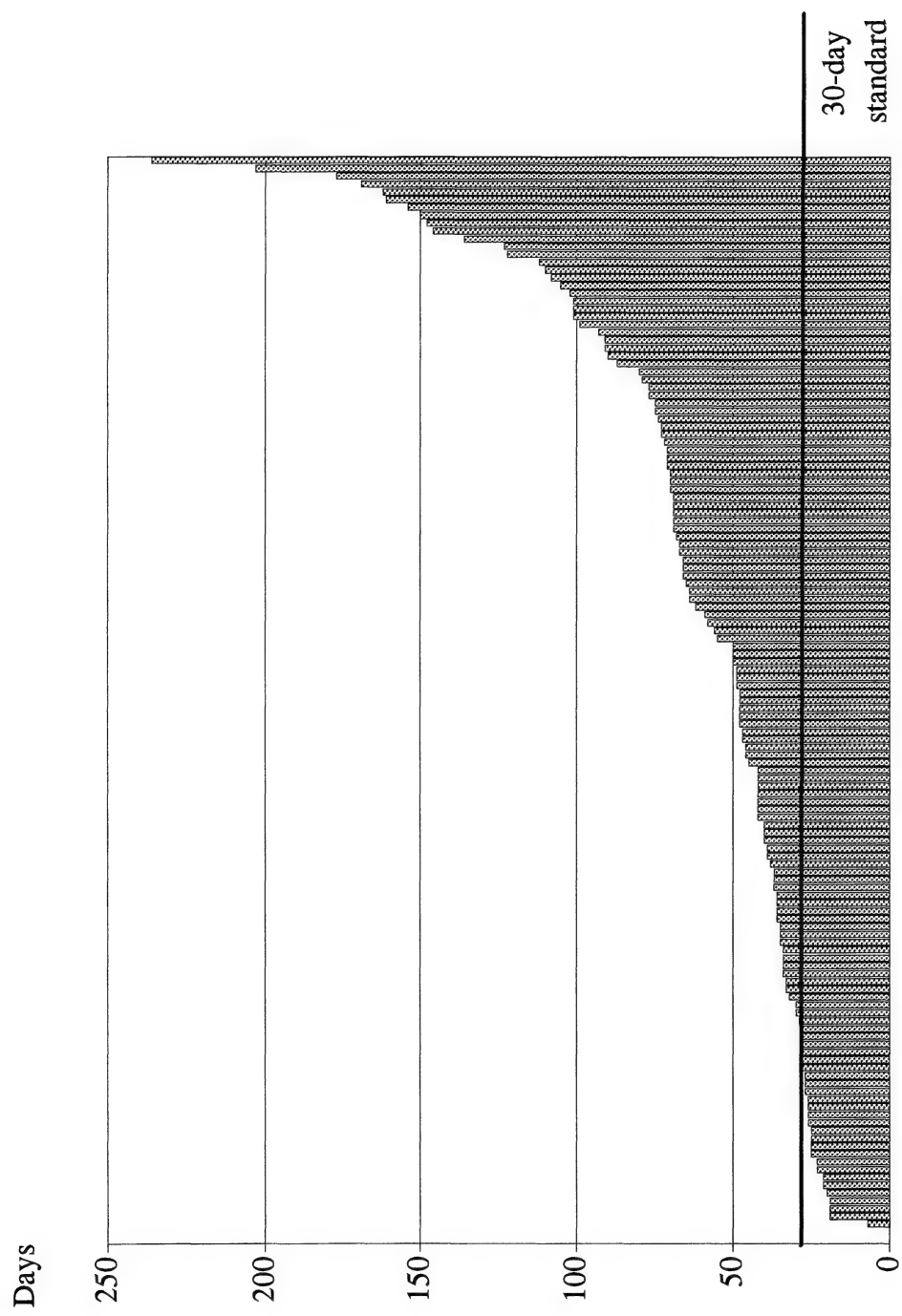
**Purchase
Orders Are Not
Processed
Promptly**

Section 10311 of the Public Contract Code requires the office to issue IFBs within 30 days from the time the office receives a purchase estimate for \$10,000 or more from an agency. The code section also requires the office to award the purchase order or reject the vendors' bids within 45 days of bid closure.

The office did not always issue IFBs within 30 days from the time that it received purchase estimates from state agencies. Of the 563 purchase orders that we reviewed, the office solicited 180 using the IFB process. Of these 180, we found 139 (77 percent) that were for more than \$10,000 and contained adequate data for us to determine how long it took the office to process them. For these 139 purchase orders, the office took, on average, 61.9 days from the time it received a purchase estimate until the time it issued an IFB. One hundred and seven purchase orders took longer than 30 days to process. However, the office awarded a purchase order, on average, within the required 45 days from the bid closure date. Figure 1 shows how long the office took to process the 139 purchase orders in our sample that were each for more than \$10,000.

Days To Process Purchase Orders

Fiscal Year 1990-91



139 purchase orders exceeding \$10,000

Figure 1

The average processing time for all purchase orders solicited by IFB, including those for less than \$10,000, was 63 days from the time the office received the purchase estimate until the time it issued an IFB. Also, the average processing time for all these purchase orders, from the time of bid closing to the time the office awarded the purchase order, was 36 days. Twenty-eight of these purchase orders took longer than 45 days.

The remaining 383 purchase orders that we reviewed were solicited by requests for quote (RFQ), price requests, or telephone quotations. Of these 383 purchase orders, 341 contained all the dates required to determine processing time from the date the office received the purchase estimate to the time it issued a solicitation. Although the law does not mandate 30-day processing times for these types of solicitations, it is reasonable to expect them to be processed as quickly as those mandated by law. We found, however, that on average, the office exceeded 30 days from the time it received a purchase estimate until the time it issued a solicitation. Specifically, we found that 91 purchase orders solicited by the RFQ process took 36 days, on average, from the time the office received a purchase estimate until the time it issued an RFQ. Thirty-five of these purchase orders took longer than 30 days to process. Further, 164 purchase orders that were solicited by price requests took 65 days, on average, from the time the office received a purchase estimate until the time it issued the price request. One hundred fifteen of these purchase orders took longer than 30 days to process. Finally, 86 purchase orders solicited by telephone quotations took 36 days, on average, from the time the office received a purchase estimate until the date of the telephone quotation. Twenty-nine of these purchase orders took longer than 30 days to process.

Management of the Procurement Process

The office conducts procurement activities from its Sacramento and Los Angeles offices. Electronic data processing and telecommunications items are procured only at the Sacramento office. Our review included an evaluation of the various phases of

the procurement process from the receipt of a purchase estimate to the date the purchase order is issued. The table shows the process milestones we evaluated and, based on our sample, the average time in days that the Sacramento and Los Angeles offices take to reach these milestones.

**Average Number of Days for Various Procurement Phases
for All Types of Solicitations
Combined for Two Offices**

Processing Office	Days From Receipt of Purchase Estimate to Date of Solicitation	Days From Date of Solicitation to Date of Required Vendor Response	Days From Required Vendor Response to Purchase Order Date	Total Processing Time	Purchase Orders in Universe	Purchase Orders in Sample
Los Angeles NonEDP purchase orders	72.77	17.91	27.45	118.46	923	145
Sacramento EDP purchase orders	34.73	25.94	18.52	68.42	752	151
NonEDP purchase orders	51.32	21.08	21.88	87.24	3,591	267

As the table shows, the Sacramento office takes, on average, 87.2 days to process nonEDP purchase orders from the time the office receives the purchase estimate to the time it awards the purchase order, whereas the Los Angeles office takes, on average, 118.4 days to process such purchase orders for the same period. Part of the time it takes the Los Angeles office to process purchase orders involves the 14 days it takes, on average, to transfer purchase estimates from the Sacramento office to the Los Angeles office. Additionally, some of this processing time is due to purchase estimates being sent back to Sacramento for technical research or proper approvals. Furthermore, some purchase estimates are submitted to both offices by state agencies before funding is available, and the offices do not process the purchase estimates until funding is approved.

Although the Public Contract Code requires the office to issue IFBs for \$10,000 or more within 30 days, the office does not have adequate controls to manage the amount of time it takes to process purchase estimates. Specifically, the office does not monitor the time it takes to process purchase estimates between various phases of the procurement process, nor does it determine how much time elapses from the receipt of purchase estimates to the issuance of purchase orders. According to the office's deputy director, the office has not established guidelines for the time that a buyer should normally take to complete the overall procurement process. As a result of not monitoring the progress of purchase estimates through the procurement process, the office cannot ensure that purchase orders are processed in the time allowed by statute. Additionally, the office may be taking too long to complete the overall procurement process.

When the office takes too long to procure items for state agencies, it may lead to the inefficient operation of state programs and the disruption of services. In 1988, our office conducted a survey of 115 state agencies regarding their satisfaction with services provided by the department. Thirty-six of the agencies that responded to the survey expressed dissatisfaction with the length of time the office takes to process purchase orders. As part of this audit, we conducted a follow-up survey of the 36 agencies to determine if they are still dissatisfied. Of the 35 agencies that responded to this survey, we found that 14 are still dissatisfied with the office's purchase order processing time.

**Participation
by Minority
and Women
Business
Enterprises**

Public Contract Code, Section 10115 et seq., requires all state contracts to have goals of not less than 15 percent participation by minority-owned business enterprises and not less than 5 percent participation by women-owned business enterprises. Section 10115.2 of the code also grants authority to state agencies to exempt contracts of \$10,000 or less, and the office has exempted these contracts. In addition, the code requires state agencies to ensure that successful bidders either meet the goals or demonstrate that they made a "good faith effort" to obtain the required

participation. To ensure that the vendors are aware of and obtain the required participation or satisfy the good faith requirement, the office developed a minority and women business enterprise (MBE/WBE) form to be included with solicitation documents. The form outlines the requirements of the law and provides guidance to vendors on how to document required participation or, if the vendors are unable to obtain the required participation, how to document that they made a good faith effort to obtain such participation. Vendors who do not satisfy the requirements are considered nonresponsive and ineligible for a contract award.

Of the 563 purchase orders we reviewed, 217 (38.5 percent) exceeded \$10,000 and, therefore, were subject to the requirements of the Public Contract Code to obtain MBE/WBE participation. We found, however, that the office did not require vendors to obtain the required participation or ensure that vendors satisfied the good faith effort requirement for 117 (54 percent) of the 217 purchase orders that were subject to the code. Specifically, we found that the 117 purchase orders did not contain the MBE/WBE form, and therefore, the office is not requiring vendors to seek MBE/WBE participation.

According to the office's deputy director, his staff did not include the forms in the solicitations because the office policy requires staff to include the form only if the buyer believes there is a potential for subcontractors or direct bidders to meet or exceed the State's goals. Further, the deputy director stated that most commodity purchases call for off-the-shelf items that provide no opportunity for value added services such as training, delivery, and installation, which would be appropriate for subcontracting. Finally, the deputy director concluded that, to require compliance with the law for these purchases would be an idle act accomplishing nothing but resulting in disruptions to the State's operations. However, if the office does not require vendors to seek participation of minority and women business enterprises in all solicitations greater than \$10,000, the office is not in compliance with state statutes, and the State's goals of 15 percent minority and 5 percent women business enterprise participation in all state contracts may not be met.

**Target Area
Contract
Preference Act
Requirements
Are Not Met**

The California Government Code, Section 4533, requires that the State grant a 5 percent monetary preference for contracts exceeding \$100,000 that do not specify a fixed worksite to companies certifying that no less than 50 percent of the labor required by the contract will be performed at worksites located in distressed areas. Additionally, the office's policy requires that a form explaining that this preference is available be included in all IFBs that are estimated to be more than \$85,000.

Of the 563 purchase orders in our review, 7 were for \$100,000 or more. Two (29 percent) of the 7 purchase orders did not contain the required forms. Because the forms were not included in these solicitations, vendors may not have been aware that the preference was available. The office's deputy director could not explain why the forms were not included in the solicitations. However, when the office fails to include the forms in the solicitation, there may be vendors who would work in distressed areas but did not bid for the work because they were not aware of the preference. As a result, opportunities for accomplishing the objective of the Target Area Contract Preference Act, which is to encourage and facilitate job maintenance and job development in distressed and declining areas in the State, may be missed.

Conclusion

The office generally complies with state contracting requirements; however, it takes longer to process some purchase estimates than allowed by law, in part, because it does not adequately monitor the processing of purchase estimates to ensure that they are processed promptly. Additionally, the office does not ensure that vendors seek participation by minority-owned and women-owned business enterprises in all contracts exceeding \$10,000. Finally, the office does not always inform vendors that a 5 percent monetary preference is available for contracts exceeding \$100,000 to vendors who agree to perform at least 50 percent of the work in distressed areas. As a result of these deficiencies, the State's operations may be disrupted and purchase orders may not be awarded in the State's best interest.

Recommendations To improve its procurement process, the department should take the following actions:

- Review the procurement process to determine whether any steps could be eliminated, whether some steps could be performed simultaneously, or whether procedures could be streamlined;
- Establish processing time standards for purchase estimates for each phase of the procurement process;
- Develop procedures for supervisors and managers so they can monitor the progress of purchase estimates through the various phases of the procurement process;
- Require vendors to obtain participation by minority-owned and women-owned business enterprises or make a good faith effort in all solicitations exceeding \$10,000; and
- Establish procedures to ensure that all solicitations exceeding \$100,000 contain notification to vendors that contract preference is available under the Target Area Contract Preference Act.

Chapter 2 The Department of General Services' Office of Procurement Is Not Meeting the Objectives of Its Central Stores Operations

Chapter Summary

According to its mission statement, the Office of Procurement's Material Services Section (Stores) is to provide professional procurement and materials management services to state and local agencies in an efficient and effective manner. However, Stores is not meeting its objective. Specifically, Stores takes an average of 26 calendar days, 16 days longer than its goal of 10 days, to fill a supply order from the time of its receipt to the time it is generally shipped. In addition, Stores does not always maintain an adequate inventory of stock to fill all supply orders. For example, in fiscal year 1990-91, Stores did not completely fill 21 percent of the 50,085 supply orders it received because it ran out of stock on at least one item ordered. Also, Stores does not offer state agencies a price savings on all the commodities it carries in its catalog. For example, we estimate that Stores charged state agencies in the Sacramento area higher prices than the prices charged by private retailers for between 82 (12 percent) and 214 (30 percent) of the approximately 710 commodities that it carried.

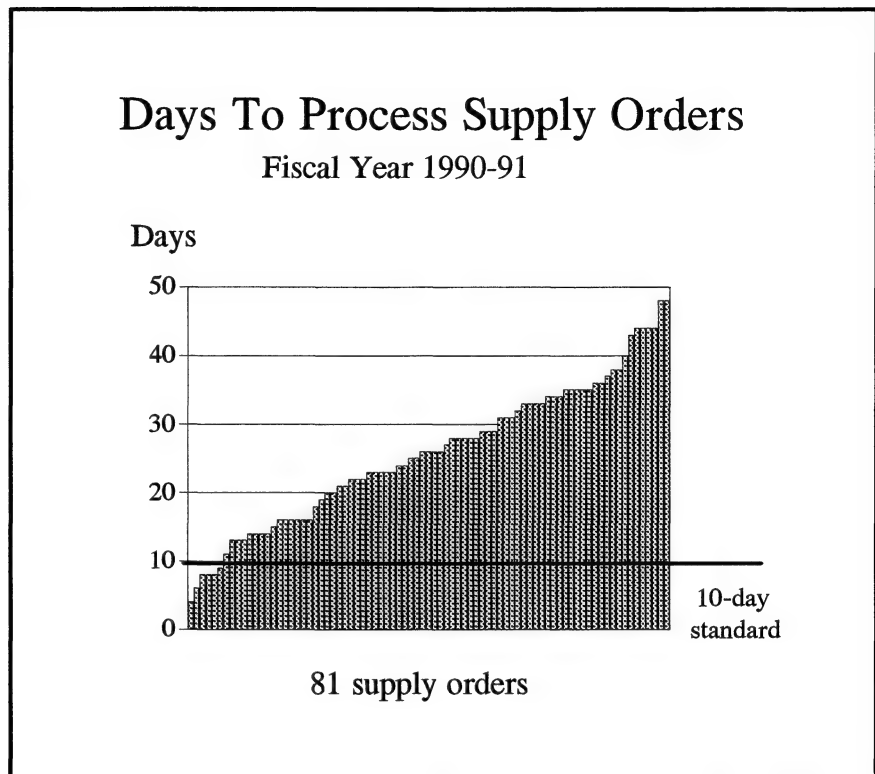
Finally, Stores is not minimizing the cost of its operations. Specifically, Stores accepts all supply orders without regard to their dollar value although the cost of filling an order may exceed the order's dollar value. For example, in fiscal year 1990-91, 19 percent of all Stores' orders for general supplies had a value of less than \$36 while processing a supply order costs Stores at least \$36. As a result of these deficiencies, state agencies cannot obtain needed supplies promptly and may be ordering large quantities of supplies, causing excessive inventory levels on a statewide basis. In addition, agencies may be paying too much for some of the supplies that they do receive.

**Stores Does
Not Always Fill
Supply Orders
Promptly**

In its mission statement, Stores is to provide professional procurement and materials management services to state and local agencies in an efficient and effective manner. During fiscal year 1990-91, Section 3543.2 of the State Administrative Manual stated that Stores should ship supply orders for nearly all materials within 5 days of receipt of the order. In September 1991, this section was amended to state that Stores should ship supply orders for nearly all materials within 10 days of receipt of an order. The department's management has determined that 10 days is the maximum acceptable time. By contrast, retailers and a private-sector distributor of office supplies that we contacted stated that their standard is to deliver products the next day.

To determine the amount of time Stores takes to fill supply orders, we reviewed a random sample of 81 supply orders that Stores received during fiscal year 1990-91, excluding food and walk-in orders. We determined the number of calendar days between the date Stores received the supply order from the agency and the date the order is shipped. According to our review, Stores required an average of 26 calendar days to fill a supply order in fiscal year 1990-91. Of these 81 supply orders, 75 (93 percent) took longer than 10 days to fill. Figure 2 shows the number of days Stores took to process the 81 supply orders in our sample.

Figure 2



During our review of the supply order process, we found that the number of days Stores takes to fill a supply order is spread among several processing milestones, some of which are time consuming. For example, upon receiving an agency's supply order, Stores screens the order for completeness, batches it into a group of 25 supply orders, and sends it to the department's Office of Management Technology and Planning to be keypunched. These initial steps take nearly two days. If the screening and the keypunching activities were conducted at the same location, the processing time for these initial steps could be reduced by at least the time required to send the batches or orders from one location to another for keypunching.

Also, the number of days between the time an order for general supplies is keypunched and the time it is shipped ranges from an average of 24 days at the Fullerton warehouse to an average of 27 days at the Sacramento warehouse. By comparison, retailers and a private distributor of office supplies that we contacted usually provide the ordered item the next day.

One of the reasons Stores takes so long to fill a supply order is that it adheres to the same daily work load regardless of the number of orders waiting to be filled. According to the Stores' material services manager, Stores expects that a warehouse worker can, in one hour, either retrieve from warehouse storage 20 to 25 different items of a supply order or prepare 20 to 25 items for shipping. For example, using this informal standard, the Sacramento warehouse tries to retrieve and prepare for shipping a total of 1,000 items per day. However, Stores' work load sometimes exceeds 1,000 items per day, causing a backlog of unfilled supply orders. Any remaining unfilled supply order items are filled at a later date, which often adds time to the filling of a supply order.

**Inventory
Not Always
Adequate To
Fill Supply
Orders**

In addition to not filling supply orders promptly, Stores periodically does not have sufficient stock to fill every item appearing on a supply order. In those cases, a state agency may request to have Stores backorder the item. Stores will then ship the item to the agency upon its receipt at the warehouse. In emergency cases, state agencies may purchase up to a 30-day supply of the backordered item from private suppliers. In its mission and goals statement, Stores states that, to achieve its service level objective, backorders are to occur no more than seven times for every 100 items requested on a supply order.

However, Stores is not meeting its service level objective. According to the department's Office of Management Technology and Planning, Stores received 50,085 supply orders for 11 months in fiscal year 1990-91, excluding forms, publications, and food. Of these 50,085 orders, Stores did not have sufficient stock to fill every item appearing on 10,642 (21 percent). Further, Stores did

not have sufficient stock to fill 70,745 (23 percent) of the 313,262 items appearing in these supply orders. Finally, Stores had to backorder on at least one occasion 838 (99 percent) of the 849 items that it carried during our review period.

Several reasons account for Stores' inability to maintain adequate stock of the items it carries. According to a report issued by the office in November 1989, Stores cannot effectively forecast state agencies' demands for the items, which results in incorrect stock levels. In addition, the report indicates that Stores does not have an adequate system for monitoring current stock levels.

If Stores does not provide a consistent level of service both in the time it takes to fill supply orders and in maintaining an adequate inventory of supplies, state agencies may not be able to plan and conduct their business in an efficient manner. For example, to compensate for the delays in filling supply orders, state agencies often order supplies far in advance of need. One state agency we contacted stated that it must order supplies up to two months in advance of the time the supplies are needed. Also, according to a feasibility report issued in February 1991 by the Office of Procurement (office), excessive processing time adversely impacts the State by increasing the statewide investment of expendable goods. Agencies are ordering 90 to 180 days of supplies, causing inappropriate levels of inventory on a statewide basis.

Moreover, if Stores does not maintain a consistent supply of items, state agencies may choose to purchase their supplies from private retailers. The private-sector distributor of office supplies we contacted stated that failure to provide next-day delivery consistently for office products generally leads to an increase in program costs as end users begin to bypass the system to get the product they need. As a result, agencies may pay more for the product than they should, and they spend too much of their own time procuring the product.

**State Agencies
Not Always
Offered Lowest
Prices**

One of Stores' objectives is to offer state agencies a price savings on the commodities it carries. Section 3540 of the State Administrative Manual states that, in general, Stores should carry those items that may be purchased in bulk for redistribution to the average state agency at a meaningful savings.

Stores' warehouses in Sacramento and Fullerton maintain an inventory of basic stationery, office supply items, paints, janitorial supplies, textiles, maintenance supplies, and other general-use commodities. Stores issues a catalog, special supplements, and interim revisions listing and describing all stock items and providing information necessary for ordering commodities from Stores' stock. Periodically, Stores issues a supplemental price list for agency information and, on a more frequent schedule, a bulletin containing information about new products, product uses, and changes in procedures.

To determine whether Stores carries those items that offer state agencies a price savings, we selected a random sample of 48 of the approximately 710 stationery and miscellaneous supply items listed in the Stores' supply catalog. Specifically, our sample of 48 items included 32 stationery and office supplies and 16 miscellaneous supplies (other than stationery). Our sample excluded forms, food, and publications. Because Stores did not provide us with a definition of what constitutes a meaningful savings, we compared Stores' prices with those of private retailers on a cost-for-cost basis.

For the 32 stationery and office supplies, we compared Stores' prices effective October 1991 with those of three office supply retailers in the Sacramento area in October 1991. We found that Stores did not offer a price savings for 8 (25 percent) of the 32 office supply items. For example, Stores charged state agencies 90 cents for a package of 100 four-inch by six-inch ruled index cards whereas two retailers offered similar index cards for 64 cents a package, including sales tax, a savings of 29 percent. In another instance, Stores offered state agencies a box of 500 plain, white, legal-size envelopes for \$5.65. However, one retailer offered similar envelopes for \$4.30, including sales tax, a savings of 24 percent.

We also found that Stores does not always offer state agencies located in southern California a price savings for stationery and office supplies. We compared Stores' prices as of October 1991 with those of two office supply retailers with locations in the Santa Ana area in December 1991. We found that Stores charged higher prices for 5 (16 percent) of the 32 stationery and office supply items appearing in our sample. For example, Stores offered 100 four-inch by six-inch ruled index cards for 90 cents whereas one retailer sold similar index cards for 53 cents, including sales tax, a 41 percent savings. In addition, Stores offered a one-pound box of 1/8-inch rubber bands for \$2.10 whereas another retailer offered similar rubber bands for \$1.61, including sales tax, a savings of 23 percent.

Finally, Stores did not always offer state agencies a price savings for miscellaneous supplies. We compared Stores' prices, as of October 1991, with those of three Sacramento area retailers in February 1992 and found that Stores charged higher prices on 2 (13 percent) of the 16 items appearing in our sample. For example, Stores offers state agencies 12-inch metal squeegees for \$3.80 whereas one retailer offered a similar squeegee for \$3.54, including sales tax, a savings of 7 percent.

Although Stores does not always offer state agencies a price savings, some commodities are not always readily available at private retailers. Specifically, we could not locate comparable items for 9 (28 percent) of the 32 stationery and office supplies and 11 (69 percent) of the 16 miscellaneous supplies appearing in our sample at the Sacramento area retailers we visited. For example, we could not locate 60-pound, 360-yard rolls of wrapping paper.

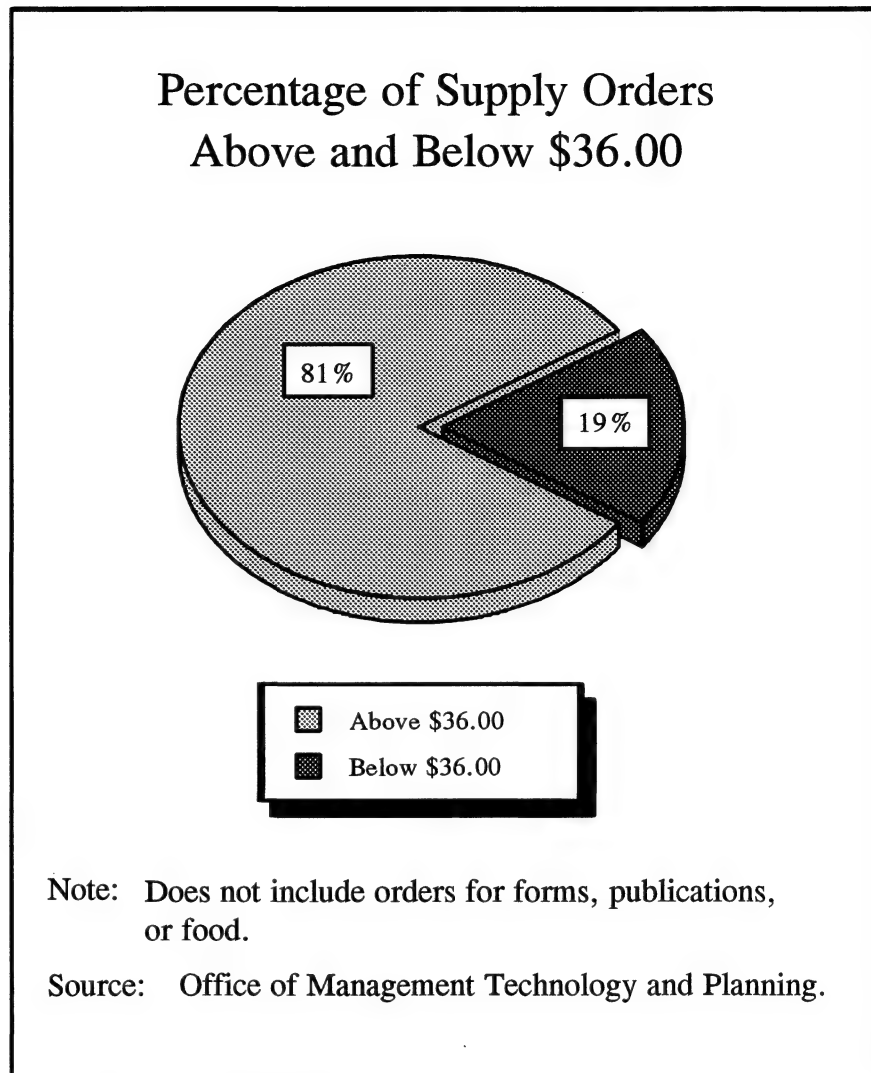
Based on our random sample, we estimate that Stores does not offer state agencies in the Sacramento area a price savings for between 82 (12 percent) and 214 (30 percent) of the approximate 710 items that it carries. In the Santa Ana area, Stores does not offer state agencies a price savings for between 28 (5 percent) and 134 (26 percent) of the 518 stationery and office supplies listed in the Stores catalog. We did not compare Stores' prices for miscellaneous supplies with those of private retailers in the Santa Ana area.

According to the Stores' manager, the office makes a price comparison between the retail selling price and the price being offered by the manufacturer before a new product is added to Stores' inventory. Also, according to the Stores manager, the office's buyer makes a price comparison at the time of the bid award. A statistical review of all items awarded to the successful bidder is compared with the previous year's bid award. However, as indicated by our review, these comparisons are not sufficient, and state agencies may be paying more than they should for some of the items carried by Stores. As a result, Stores is not consistently meeting its objective of offering state agencies a price savings on the commodities it carries.

**Supply Order
Costs Are Not
Minimized**

Stores is not minimizing the cost of processing supply orders. Specifically, Stores accepts supply orders from agencies without regard to their dollar value. According to a computer-generated report from the department's Office of Management Technology and Planning, Stores filled 50,085 supply orders in fiscal year 1990-91, excluding forms, canned food, and publications. As Figure 3 shows, 3,628 (7 percent) of these supply orders had a value of less than \$10. In addition, 9,606 (19 percent) of these supply orders had a value of less than \$36.

Figure 3



Based on Stores' financial statements for fiscal year 1990-91, we estimate that it cost Stores at least \$36 in direct costs to fill a supply order. As a result, the total cost of an item purchased through Stores can be more than the actual cost of the item ordered. For example, Stores filled a supply order for binder sheet protectors that cost Stores \$3.99. However, because it costs Stores at least \$36 to process a supply order, we estimate the cost of this order to be \$39.99. When the cost of filling a supply order exceeds its dollar value, Stores cannot provide supplies to state agencies cost effectively.

**Other Entities'
Methods for
Procuring
Supplies**

To obtain information about alternative methods other entities use to procure supplies, we contacted another state and city and other counties that contract with private-sector distributors of office supplies rather than maintain a central warehousing program. The entities we contacted cited several benefits to this method of procuring office supplies. For example, in 1988, the state of Oregon provided office supplies to two state agencies, on a pilot project basis, through a competitively selected private-sector distributor of office supplies rather than through the State's own central stores warehouse program. Both pilot program agencies were able to identify labor savings and space savings as well as other benefits. Subsequently, the state of Oregon competitively selected a private-sector vendor of office supplies to serve state agencies.

The City and County of San Francisco (city) has also contracted with a private-sector distributor of office supplies for the past seven years. According to a purchasing officer for the city, this method of procuring office supplies has benefited the city in many ways. For example, deliveries are made within 24 hours after placing the orders, and the departments have the added convenience of contracting with one vendor. In addition, the city has saved costs by eliminating the warehousing of supplies, by eliminating costs for paperwork to process small orders, and by receiving better contract prices for high-use items.

Similar benefits have been realized by the City of Sacramento, which elected in 1985 to contract with a private-sector distributor to provide office supplies. The primary reasons for contracting for this service included a desire to improve product availability and delivery time and to reduce the overall cost of office supplies purchased. According to the City of Sacramento's director of general services, these goals have been met. Turnaround time for orders averages a little more than 24 hours, satisfaction level is high, and the streamlining brought about by contracting with a private-sector distributor has reduced overall costs.

Finally, the County of Alameda also contracted with a private-sector distributor of office supplies in the fall of 1990. According to the manager of the Purchasing Division, the contract has reduced the cost of goods the county purchases by 5 percent, turnaround time for delivery of office supplies has been reduced from 10 days to 2 days, and invoice and return problems have also been reduced.

Conclusion The department's objective of providing state agencies with efficient and effective material management services is not being met. For example, Stores takes an average of 26 calendar days to fill a supply order and does not maintain an adequate inventory to fill 21 percent of the items appearing in the supply orders. Further, Stores does not provide state agencies in the Sacramento area with a price savings for between 12 percent and 30 percent of the approximately 710 items listed in its catalog. Additionally, even though it costs Stores at least \$36 to fill a supply order, approximately 19 percent of the supply orders that Stores processed had a value of less than \$36. As a result, state agencies are not receiving needed supplies promptly and may be paying more than they should for the supplies they do receive.

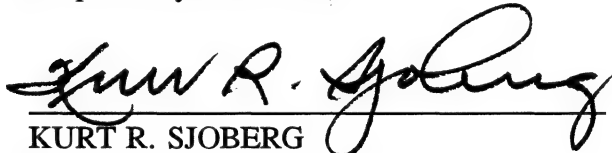
Recommendations To improve its material management services, the department should take the following actions:

- Review the process Stores uses to fill supply orders and identify opportunities for reducing the time it takes to process the orders so that Stores can be competitive with private retailers that provide next-day delivery;
- Monitor the timeframes necessary to complete each phase of the process of filling a supply order and use this information to ensure that all supply orders are filled promptly;
- Reevaluate the informal standard of filling 1,000 items per day and develop a method for meeting variable daily work loads;

- Establish a minimum order value for general supplies;
- Conduct more thorough price surveys of private retailers to determine whether Stores offers state agencies the lowest prices on the supplies that it carries and consider discontinuing those items that are available at a lower price through private retailers;
- Develop an effective means of forecasting demand for the supplies that Stores carries and closely monitor its inventory levels to ensure that an adequate supply of stock is available to fill all items appearing on a supply order; and
- Consider alternate methods for procuring supplies, such as contracting with a private-sector distributor.

We conducted this review under the authority vested in the auditor general by Section 10500 et seq. of the California Government Code and according to generally accepted governmental auditing standards. We limited our review to those areas specified in the audit scope section of this report.

Respectfully submitted,


KURT R. SJOBERG
Auditor General (acting)

Date: June 1, 1992

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State and
Consumer Services Agency

OFFICE OF THE SECRETARY

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Building Standards Commission
Consumer Affairs
Fair Employment & Housing
Fire Marshal
Franchise Tax Board
General Services
Museum of Science & Industry
Personnel Board
Public Employees' Retirement System
Teachers' Retirement System
Veterans Affairs

May 26, 1992

Kurt R. Sjoberg
Acting Auditor General
Office of the Auditor General
660 J Street, Suite 300
Sacramento, CA 95814

RESPONSE TO AUDITOR GENERAL REPORT NUMBER P-135

Dear Mr. Sjoberg:

Thank you for the opportunity to respond to your Report P-135 entitled "The Department of General Services' Office of Procurement Needs to Improve Its Purchasing and Materials Management Practices". The attached response from the Department of General Services addresses each of your recommendations.

If you need further information or assistance on this issue, you may wish to have your staff contact John Lockwood, Director, Department of General Services, at 445-3441.

Sincerely,

Barbara Fitzer
BARBARA FITZER
Deputy Secretary

cc: John Lockwood, Director
Department of General Services

Rick Gillam, Audit Coordinator
Office of Management Technology and Planning
Department of General Services

MEMORANDUM

Date : May 26, 1992

File No: P-135

To : Dr. Bonnie Guiton, Secretary
State and Consumer Services Agency
915 Capitol Mall, Room 200
Sacramento, CA 95814

From : Department of General Services
Executive Office

Subject : **RESPONSE TO AUDITOR GENERAL REPORT NO. P-135 -- THE DEPARTMENT OF GENERAL SERVICES' OFFICE OF PROCUREMENT NEEDS TO IMPROVE ITS PURCHASING AND MATERIALS MANAGEMENT PRACTICES**

Thank you for the opportunity to respond to Office of the Auditor General (OAG) Report No. P-135 which addresses recommendations to the Department of General Services (DGS) pertaining to activities performed by its Office of Procurement (OP). The following response addresses each of the recommendations.

OVERVIEW OF REPORT

The DGS has reviewed the findings, conclusions and recommendations presented in Report No. P-135. As discussed in this response, the DGS will take appropriate actions to address the recommendations.

The DGS is pleased that after an approximately thirteen month audit of the OP's purchasing operations, the OAG has concluded that the OP generally complies with State contracting requirements. While the report contains a number of recommendations to improve operations, the results of the review are not surprising when consideration is given to the size and complexity of the procurement and materials management activities administered by the OP.

During the 1990/91 fiscal year, the OP purchased goods totalling approximately \$900 million and sold through its central stores (Stores) items totalling approximately \$37 million. While not disputing that, as with most operations, there may be areas for further improvement, overall the State's procurement practices are accomplished in a manner that achieves both standardization through the elimination of duplication of effort and lower prices as a result of volume buying.

Since the findings and conclusions were in most cases extensively discussed in written correspondence with the OAG during the audit, the DGS will not attempt to provide further information on those areas in this response. However, it should be noted that the 1990/91 fiscal year activities used by the OAG to perform its analyses may not be totally representative of the performance of the OP. Specifically, a number of circumstances occurred during that fiscal year that had a significant impact on the activities of the OP. These included the implementation of Public Contract Code (PCC) Section 10115 et seq., pertaining to the participation of minority-owned and women-owned business enterprises in State contracts and the processing of numerous procurement requests that were impacted by the Governor's freeze on General Fund equipment purchases. Purchase estimates impacted by the freeze were held by the OP for 60 days to allow the impacted agency to obtain an exemption or to identify another source of funds. The policy of holding these estimates, instead of automatically returning them to State agencies, obviously, negatively impacted the average processing timelines referenced in the audit report.

CHAPTER 1

**THE DEPARTMENT OF GENERAL SERVICES'
OFFICE OF PROCUREMENT DOES NOT
ALWAYS COMPLY WITH ALL STATE
CONTRACTING REQUIREMENTS**

RECOMMENDATION: "Review the procurement process to determine whether any steps could be eliminated, whether some steps could be performed simultaneously, or whether procedures could be streamlined."

DGS RESPONSE: While the OP continually monitors its procurement process for additional areas of economy and efficiency, it will perform a detailed study to determine further areas for improvement. However, based on current experience, recent increases in the average time to conduct the procurement process has primarily resulted from the OP directly handling the more complex procurements, e.g., sophisticated equipment purchases, while delegating to State agencies the more routine transactions. Further, the procurement process has been significantly impacted by the implementation of procurement steps to meet PCC Section 10115 et seq., which addresses the participation of minority-owned and women-owned business enterprises in State contracts. A procurement in compliance with these statutes is extended from 2 to 6 weeks because of the need to allow potential bidders to perform good faith efforts to comply with participation requirements. The study of the procurement process should be completed by December 31, 1992.

The DGS will also study the feasibility of revising the 30 day requirement for processing purchase estimates contained in PCC Section 10311(b). This statute was apparently created in the 1950's and is often no longer realistic because of changes in State purchasing requirements that have been enacted over the years. In addition to the previously noted impact resulting from PCC Section 10115 et seq., the timelines for the procurement process have been impacted by legislation requiring the providing of small business, target area and recycled product preferences, the participation of disabled veterans in procurements, and the certification by all contractors that they will provide a drug-free workplace.

①*

RECOMMENDATION: "Establish processing time standards for purchase estimates for each phase of the procurement process."

DGS RESPONSE: In a May 7, 1992 memorandum, the OP's management notified its buying staff that processing timeline goals would be established and buyer performance in meeting those goals would be monitored. The initial goal established was for formal bid procurements to be processed within 75 working days. In developing this overall processing time standard, reasonable time periods were allowed for key phases of the procurement process. These include data entry, reproduction, mailing, and, if needed, review of specifications by the OP's Standards Unit. It is foreseen that processing time standards for other methods of procuring goods, i.e., price requests, requests for quotations and contract invitation for bids, will be developed by December 31, 1992.

*The Office of the Auditor General's comments on this response begin on page 35.

RECOMMENDATION: "Develop procedures for supervisors and managers so they can monitor the progress of purchase estimates through the various phases of the procurement process."

DGS RESPONSE: The OP is in the last phase of implementing its automated Purchasing Information Network (PIN) which is both a tool for processing purchasing documents and a management information system. As a part of this last phase, which should be completed by December 31, 1992, a number of reports have been or are being designed to monitor workload. Currently, reports are produced weekly for management detailing the status of purchase estimates outstanding for both the OP's Sacramento and Los Angeles offices. Further, another report showing those estimates with no change in status for a specified period of time is generated upon request. A report displaying buyer workload statistics showing elapsed time between receipt of estimates and release of bids and elapsed time between receipt of bids and issuance of purchase orders is being developed and should be available by December 1992.

RECOMMENDATION: "Require vendors to obtain participation by minority-owned and women-owned business enterprises or make a good faith effort in all solicitations exceeding \$10,000."

DGS RESPONSE: The OP fully complies with the State's minority-owned and women-owned business enterprise goals when an opportunity exists for value-added services, such as training, delivery and installation, which would be appropriate for subcontracting. This policy has resulted in over 70% of the total dollar value of the OP's purchases being conducted in full compliance with PCC Section 10115 et seq.

For commodity procurements where subcontracting opportunities simply do not exist, strict compliance with the statutes is not possible without significant disruption to the State's operations. Therefore, alternate procedures are used whereby purchases exceeding \$10,000 can be performed without obtaining the participation goals for minority-owned and women-owned business enterprises. These procedures include the notification of potential bidders of the opportunity to convert the procurement to require full participation if the bidder can meet the statutory requirements. While rarely occurring, three procurements have been converted based on a bidder indicating that they could comply with the full participation requirements. ②

It should be noted that since the OP performs the State's procurement activities, its policies for implementing the minority-owned and women-owned business enterprise participation requirements have been closely monitored by interested members and staff of the Legislature and organizations and individuals within the vendor community. These parties have expressed an understanding of the need for the use of the OP's current practices for purchasing commodities that do not provide an opportunity for value-added services.

The concerns expressed as to the OP's practices should be satisfied if current pending legislation, Assembly Bill No. 3301, is passed. This legislation revises existing statutes to address issues that have been raised based on experiences gained by State agencies in complying with PCC Section 10115 et seq.

RECOMMENDATION: "Establish procedures to ensure that all solicitations exceeding \$100,000 contain notification to vendors that contract preference is available under the Target Area Contract Preference Act."

DGS RESPONSE: By July 1, 1992, a memorandum will be issued to supervisors of OP's buying staff advising them of their responsibilities for monitoring compliance with the Target Area Contract Preference Act. This action will result in the clear establishment of responsibility for ensuring that target area preference notification forms are, when required, included in bid packages.

CHAPTER 2

THE DEPARTMENT OF GENERAL SERVICES' OFFICE OF PROCUREMENT IS NOT MEETING THE OBJECTIVES OF ITS CENTRAL STORES OPERATIONS

RECOMMENDATION: "To enable Stores to be competitive with private retailers that provide next-day delivery, review the process Stores uses to fill supply orders and identify opportunities for reducing the time it takes to process the orders."

DGS RESPONSE: By early in the 1993 calendar year, the OP will complete a detailed study of its Stores operations to identify possible areas for further improvement in economy and efficiency. However, the OP already has developed plans to implement a Material Services Module (MSM) within the PIN system that will assist in improving efficiency. The MSM is a comprehensive inventory management system addressing inventory replenishment, supply order processing, receiving, inventory tracking, first-in first-out stock redistribution, shipping and distribution. A Stores catalog will be available on-line which will both allow State agencies to place their orders on-line and to have the opportunity to view the status of their orders and substitute one item for another in the event an item is unavailable at that time. This automated system is targeted for implementation during the first six-months of the 1993 calendar year.

It should be noted that response time in filling orders has greatly improved during the last year. Specifically, during the period of April 1991 through March 1992, the time to fill orders has averaged approximately 8 work days which is below the Stores goal of 10 work days. While this is partially due to a reduction in orders because of the State's current fiscal crisis, it also provides an indication that Stores operations during the 1990/91 fiscal year period reviewed by the OAG may not be totally representative of ongoing operations. Further, it provides an indication that management has promptly taken action to improve processing timelines. ③

It should also be noted that during the OAG's review period the Stores experienced some difficulties due to issues that were not totally within its control. These included delays in awarding contracts due to newly enacted legislation, the untimely deletion of stock due to agency expenditures at the end of the 1989/90 fiscal year, and sporadic and untimely deliveries of products. ④

In addition, while next-day delivery is not a goal, the Stores allows customers the benefit of next-day or same-day delivery, if the customer is

willing to pick-up the item at the State warehouse. If desired, this policy allows customers to be served more promptly than the 10 work day goal.

⑤

RECOMMENDATION: "Monitor the timeframes necessary to complete each phase of the process of filling a supply order and use this information to ensure that all supply orders are filled promptly."

DGS RESPONSE: Over the last year, the Stores' management has implemented policies and procedures that have ensured the close monitoring of all phases of the process used in filling a supply order. These policies and procedures have included the closer supervision of staff, the reorganization of operational procedures and the shifting of personnel, as necessary, to ensure efficient operations. In addition, Stores' management continually monitors the primary activities, i.e., picking and packing, involved in processing an order through the use of weekly production reports. These reports have been a valuable tool in identifying and counseling workers who have not performed up to established standards.

To assist in further monitoring processing times, the MSM will include management information on processing times. Additionally, it will eliminate or reduce a number of current phases used in processing a supply order. For example, the keypunching activities referenced in the report will be significantly eliminated or reduced, especially for on-line State agencies.

RECOMMENDATION: "Reevaluate the informal standard of filling 1,000 items per day and develop a method for meeting variable daily work loads."

DGS RESPONSE: While during the 1992/93 fiscal year the OP will perform an analysis to determine if its Stores workload standards are reasonable, based on previous reviews, the standards have been shown to reflect acceptable levels of performance. By establishing improved methods in order processing and arranging items in the warehouse to increase production, the ability to meet variable workloads has increased. In addition, the ability to adjust in a timely manner to meet variable workloads will be enhanced by information provided by the MSM. For example, shipping orders will be printed as needed at any time desired.

With the State's current fiscal crisis, the OP has been limited in its fiscal actions (i.e., increasing permanent staff, allowing overtime and hiring temporary help) to address significant increases in workload. However, as with past years, if deemed by management to be an efficient option, overtime and temporary help will be pursued to reduce order filling times. Currently, the 1991/92 fiscal year workload has not increased to a level that impacts the ability of Stores to fill orders in a timely manner with existing resources.

RECOMMENDATION: "Establish a minimum order value for general supplies."

DGS RESPONSE: During the 1992/93 fiscal year, the OP will complete a study of the feasibility of establishing a minimum order value for general supplies. However, this issue has been considered in the past and not implemented because of the potential negative impact on the operations of small agencies. For example, small agencies may have to order quantities in excess of a normal 30-day supply to meet a minimum order requirement. This

could lead to the ordering and stocking of supplies prior to need.

In addition, the Stores has increased the unit measure quantities for sale on several high demand items to reduce the handling costs on those items. By increasing the unit measure, the number of units in a minimum order is increased. Therefore, the order value is increased.

RECOMMENDATION: "Conduct more thorough price surveys of private retailers to determine whether Stores offers state agencies the lowest prices on the supplies that it carries and consider discontinuing carrying those items that are available at a lower price through private retailers."

DGS RESPONSE: The OP will implement a continuous process for comparing the prices it charges to those of private retailers. This process will include a review to ensure that minimum Statewide quality standards are considered prior to discontinuing an item. It would not benefit the State to discontinue an item that is available at a lower cost through a private retailer if a State agency ends up spending more for a quality level that exceeds the Statewide quality standard. While not discussed in the report, the need for Statewide quality control is also a criteria for maintaining cost control.

It should be noted that recently, i.e., March and April 1992, an OP staff member conducted a detailed comparison of Stores office supply item prices to those of a major office products retailer. This review confirmed that Stores prices are very competitive and overall, for the 66 items that were comparable, a 20% savings would result to State agencies if each item was purchased through the Stores. This result occurred even when freight costs were included in Stores prices but not in the retailers prices. This retailer charges \$50 for deliveries in town and adds the freight of common carriers to out-of-town deliveries which would obviously have a major impact on per item cost. ⑥

RECOMMENDATION: "Develop an effective means of forecasting demand for the supplies that Stores carries and closely monitor its inventory levels to ensure that an adequate supply of stock is available to fill all items appearing on a supply order."

DGS RESPONSE: As noted in the report, the need for a more effective forecasting tool has been identified by Stores' management. Therefore, they have pursued automation of this function. In fact, this is one of the key management features of the MSM. The MSM will allow a means for forecasting the demand for supplies and for monitoring existing supply levels to ensure that demand is being met efficiently and effectively.

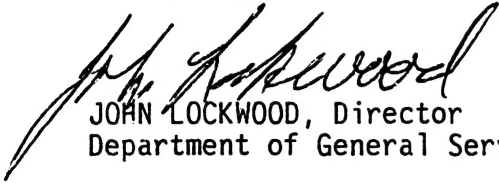
RECOMMENDATION: "Consider alternate methods for procuring supplies, such as contracting with a private-sector distributor."

DGS RESPONSE: During the 1992/93 fiscal year, the OP will review a number of public entities that are using private-sector distributors for office supplies. This review will determine the applicability of this type of procurement method to the current centralized warehousing method used by the State.

CONCLUSION

As part of its continuing efforts to improve policies and procedures, the DGS will take appropriate actions to address the issues presented in the report. It should be noted that the OP's management has continually shown a strong commitment to improving operations in a timely manner.

If you need further information or assistance on this issue, please call me at 445-3441.

A handwritten signature in black ink, appearing to read "John Lockwood", is written over the typed name.

JOHN LOCKWOOD, Director
Department of General Services

JL:RG:kg

Comments	Office of the Auditor General's Comments on the Response From the Department of General Services
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- ① While we agree that some provisions of the Public Contract Code may add to the overall time necessary to process a purchase order, the time taken to comply with these provisions does not occur during the 30 days required for soliciting bids.
- ② State law does not give the department the discretion to choose which procurements vendors need to seek participation by minority-owned and women-owned business enterprises.
- ③ To obtain a more current measure of how long Stores takes to fill supply orders, we reviewed supply orders filled by the Fullerton and Sacramento warehouses for the month of November 1991. Although the Sacramento warehouse required fewer days to fill a supply order, we found that the Fullerton warehouse required approximately 21 days. This is only marginally better than the 24 days the Fullerton warehouse took to fill the supply orders appearing in our sample in fiscal year 1990-91.
- ④ While some factors may have prevented Stores from filling all supply orders promptly, Stores could have minimized some of these disruptions. For example, prudent management practices would have ensured that Stores had sufficient stock on hand to fill supply orders. In addition, Stores' contracts have provisions that penalize vendors for failing to conform to the terms of their contracts, which should minimize sporadic and untimely deliveries. Finally, Stores documents vendor performance. These performance evaluations are considered by the Office of Procurement before awarding new contracts, which should help minimize the state's exposure to vendors who do not comply with the terms of their contracts.

- ⑤ Although state agencies may pick up an item at either the Sacramento or Fullerton warehouse between 8:00 a.m. and 11:30 a.m. on Thursdays only, Stores assesses a \$30 surcharge for this service. In addition, Stores restricts state agencies to a maximum of three different items for each supply order.
- ⑥ Although Stores may offer state agencies an overall price savings, our comparison shows that Stores can maximize the savings it offers by carefully evaluating all the items that it carries and discontinue those items that cost less at private retailers.

**cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
State Controller
Legislative Analyst
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
Capitol Press Corps**